

AUDIT & ASSURANCE

November-December 2025

Time allowed- 3:30 hours

Total marks- 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. Your firm, Rahman & Chowdhury, Chartered Accountants, has been approached to accept the statutory audit of Motijheel Finance Ltd. for the accounting year ended 30 June 2025, a financial institution listed with DSE & CSE. During preliminary discussions, the engagement partner came to know that the Bangladesh Bank previously fined Motijheel Finance for non-compliance with capital adequacy reporting requirements and weaknesses identified in its risk-management systems. These findings have already damaged the institution's reputation in the local financial market.

At present, Motijheel Finance is undergoing a large-scale restructuring programme. This restructuring includes the revaluation of domestic debt securities, significant trading activities involving DSE-listed instruments, and the use of derivatives and structured financial products in its treasury operations. The nature of these transactions raises concerns about valuation risk, fair value measurement, and the adequacy of the company's financial reporting systems. In addition, the internal control environment appears fragile. The treasury and trading departments have been identified as high-risk areas, and preliminary interviews suggest that several fundamental controls -such as segregation of duties, authorization protocols, and risk oversight functions may not be operating effectively.

Motijheel Finance has experienced a high attrition rate over the last two years, with several senior positions, including Chief Financial Officer, Head of Treasury, and Head of Compliance, currently occupied by acting or interim personnel. This instability raises doubts regarding the competence, accountability, and ethical leadership at the top management level.

Your firm has also received anonymous privileged information suggesting that the company may have been misreporting liquidity ratios, capital adequacy figures, and other prudential indicators to Bangladesh Bank in order to meet regulatory requirements and performance benchmarks. The whistleblower claims to possess documents that substantiate these allegations but refuses to come forward publicly. These claims heighten the suspicion of possible fraud or intentional misstatement by management. Compounding these issues is an ethical dilemma concerning the audit fee. The directors of Motijheel Finance have offered your firm an audit fee substantially higher than prevailing market rates and expressed confidence that your firm will ensure a "smooth and timely audit process." It has recently come to light that one of the directors, who is actively involved in the audit appointment process is also an existing tax advisory client of your firm. This relationship, which was initially unknown to the engagement partner.

Given the combination of regulatory concerns, internal control weaknesses, allegations of unethical reporting, and independence threats, your firm must carefully reconsider whether accepting this engagement would comply with professional, ethical, and quality-control standards applicable in Bangladesh.

Requirements:

- a) Identify and explain four key factors your firm should consider before accepting the audit engagement of Motijheel Finance Ltd. 4
- b) Describe three procedures your firm should perform to evaluate the integrity and reputation of Motijheel Finance Ltd before deciding whether to accept the engagement. 6
- c) Discuss the implications that the ongoing restructuring and the company's complex financial transactions may have on your firm's audit approach. 5
2. a) As a practitioner of a sole proprietorship firm, the following two situations have arisen during the course of audit of two separate entities: You are required to explain the action you would take in each of the circumstances.
- i) At the request of X Ltd (an audit client), you have agreed to provide advice on the preparation of a tender for a very large contract. Subsequently, another client Y Ltd (for whom you prepare accounts and provide a wide range of advice) has also asked for your assistance in preparing a tender for the same contract. 4
- ii) Whilst carrying out the final audit of the accounts of P Ltd (deadline one month after the reporting date), you have discovered a substantial trading debt due from another client Q Ltd. Although it has not been made public, you are aware that Q Ltd is in serious financial difficulties and the bank is considering for appointing a receiver. The directors of P Ltd have made no allowances for irrecoverable or doubtful receivables against the amount due from Q Ltd. 3

b) Finch Ltd. is a 100% export oriented Private Limited company. Due to economic meltdown in the prime exporting countries, the volume of export has been reduced abnormally. The company is unable to repay the loan installments as per schedule. The management of the company has discussed the issues with the financing bank. The bank has advised the company management to prepare and produce some financial statements for onward submission to the Board of Directors for rescheduling the loan. The financial information should be prepared showing present assets and liabilities, earning position, cash flows with comparison and describing the reasons behind such downward trend of the business. The company management has asked the bank whether it is required to be audited or not. The bank authority has replied that it is not essential to be audited. However, if you want it to be audited by a Chartered Accountant, it will also be accepted.

Requirements:

Under the above situation you are required to answer the following questions:

- i) What benefit will the company management get if the financial information as desired by the bank is audited by a Chartered Accountant? 4
- ii) What will be the responsibility of the auditor as assurance provider? 4

3. Shonar Bangla Foods & Bakery Ltd., a family-owned medium-sized bakery and confectionery manufacturer in Gazipur, has been operating for over twelve years. Recent internal assessments indicate that the company is ill-prepared to address growing competition and rapid technological changes in Bangladesh’s food and consumer goods sector.

The company has partially introduced computerized operations; however, manual record-keeping persists due to resistance to change and lack of staff training. Employees are required to use ID cards and gate passes for factory and warehouse access. Nevertheless, several ID cards have been lost or duplicated, allowing unauthorized individuals to enter, creating significant security and inventory risks.

Several directors seldom attend Board meetings as mandated by the company’s Memorandum and Articles of Association. Some directors regularly purchase bakery products and raw materials on credit and fail to repay, while background checks have revealed that two directors are involved in unethical business activities. These issues have caused reputational damage, negative media coverage, and declining customer confidence and market share.

One of the audit partners is the Chairman’s younger brother. The audit team rarely reports internal control weaknesses despite clear signs of financial misstatements. The audit team is small and lacks specialized skills, particularly in IT and manufacturing audits.

The Managing Director (MD) approves all payments and transactions without oversight. Procurement of flour, yeast, sugar, and packaging materials is conducted through his personal contacts rather than competitive bidding, resulting in inflated prices and potential kickbacks. Stock counts are infrequent, and damaged or expired products are not written off.

The accounting software is outdated, lacks proper updates, and is inadequate for reliable financial reporting. Staff training is minimal, and experienced employees are discouraged from taking leave due to junior staff’s inability to manage tasks independently. Consequently, fraud and errors often remain undetected.

The company’s revenue has declined due to rising competition, product quality issues, and distribution problems. Cash flow shortages have delayed payments to suppliers, salaries, and utility bills. Some raw material suppliers have threatened to stop deliveries until outstanding dues are cleared. Receivables remain unverified, and many are likely unrecoverable.

The National Board of Revenue (NBR) has issued warnings regarding unpaid VAT, corporate tax, and source tax deductions, posing potential penalties or operational shutdown risks under Bangladeshi tax laws.

A business associate advised the Chairman to seek external investors to inject fresh capital, appoint competent directors with professional ethics, and engage a reputable audit firm capable of conducting a modern, risk-based audit to restore stakeholder confidence.

Requirements:

- a) Summarize the audit risk, inherent risk, control risk, and detection risk for Shonar Bangla Foods & Bakery Ltd. 6
- b) Identify the key business risks facing the company and explain their potential impact on the accuracy and reliability of financial statements. 4
- c) Summarize the financial statement risks that could influence the overall audit risk, considering the company’s operational, governance, and reporting weaknesses. 7

4. MH & Partners, Chartered Accountants, is a mid-sized firm with offices in Dhaka and Chattogram. The firm has been in practice for over 20 years, providing audit, tax and business advisory services. Recently, a regulatory inspection by the Financial Reporting Council (FRC) highlighted significant deficiencies in the firm's system of quality management. Key findings include:

- The firm has no formal risk assessment process and lacks documented quality objectives under ISQM 1.
- Staff training is irregular, with no continuing professional development plan. Audit seniors last attended formal training three years ago.
- Client Acceptance & Continuance procedures are inconsistent. In one case, the firm accepted a new client, Orion Manufacturing Plc, despite negative media reports about tax evasion investigations in Singapore. No documented due diligence was performed.
- No engagement quality reviewer (EQR) was assigned to the audit of Fortune Securities Ltd., a listed public interest entity (PIE) with Tk. 120 billion in assets.
- Significant audit file deficiencies were found, including unsigned working papers, missing partner reviews, and reliance on management representations without corroborative evidence.

The managing partner claims the firm “has always operated successfully without complex quality management systems” and believes most ISQM requirements are “too burdensome for small firms.”

Requirements:

- a) Critically evaluate the deficiencies in MH & Partners' system of quality management in light of the requirements of ISQM 1. Explain what quality objectives the firm should have established and how the failures identified create quality risks. Provide practical recommendations appropriate for a two-office mid-sized practice. 6
- b) Analyse whether an Engagement Quality Review was required for the audit of Fortune Securities Ltd. Explain the responsibilities of the firm under ISQM 2 regarding appointment, eligibility and performance of the EQR. Assess how the absence of an EQR affects audit quality and regulatory compliance. 6
- c) Discuss how the audit engagement team failed to comply with relevant ISAs when accepting and auditing Orion Manufacturing PLC. Refer specifically to responsibilities relating to client acceptance (ISA 220), responding to risks of material misstatement (ISA 315/330), reliance on management representations (ISA 580), and audit documentation (ISA 230). Provide recommendations to correct and prevent such deficiencies. 6

5. a) Earlier, your firm had been appointed as the auditor of Sparrow Ltd. a cookies manufacturing company. The audit team engaged for the assignment mostly had no experience on audit of manufacturing industry. The company was suffering from shortage of liquidity due to low sales volume and low margin of profit. The overall financial position of the company was not up to the level to be satisfied by the bank and financial institution to provide loan. To make the financial statements healthy, lucrative and acceptable to the financing institutions, some false sales were incorporated in the profit and loss account by debiting receivables. The audit team could not identify those false sales and receivables. Subsequently, when it was detected, the auditor explained that they could not check every transaction, audit work was carried out on a test basis selecting the sample. However, auditor was accused for non-identifying the false sales and receivables. Subsequently, the partners of the firm realised that they had failed to reduce the detection risk.

Requirement:

From the above scenario, you are required to identify what were the shortcomings as regards to reduce the detection risk to an acceptably low level. 8

b) Situations which have arisen in three audit clients of your firm are as follows: The year ended in each case is 30 June 2025.

Shams Ltd (Shams)

The following note to the financial statements for the year ended 30 June 2024 was included by the directors:

“The company has incurred significant trading losses and cash outflows during the last two years, but the directors believe that the effects of substantial change of management and redesigning business policy will bring about improved results which have been disclosed in the detailed profit and cash flow forecasts for the period to the end of June 2025. These forecasts indicate that the company will be able to trade within its required working capital facility for at least the next 12 months from the date of this report.

Considering the above factors appropriate, the directors have prepared the financial statements on the going concern basis. Should the company fail to meet its forecasts, the going concern basis

may prove to be inappropriate. In such circumstances adjustments are likely to have to be made to the net assets shown in these financial statements to reduce assets to their recoverable amounts, to reclassify non-current assets and payables due after more than one year to current assets and current liabilities and to provide for further liabilities that may arise.”

Ram Ltd (Ram)

The results of Modhu Ltd (‘Modhu’), a subsidiary, of Ram has been incorporated in the consolidated financial statements. Modhu is audited by another firm of auditors who have modified their opinion on Modhu’s financial statements for the year ended 30 June 2025 because the physical inventory count sheets which were the only record of the year end inventory has been destroyed due to fire incident at factory premises. The company has included inventory at its estimated cost of Tk.1,000,000 in the financial statements for the year ended 30 June 2025.

The consolidated profit of Ram is Tk.67 million and the profit of Modhu is Tk.2.4 million for the year ended 30 June 2025.

Karon Ltd (Karon)

On 30 April 2025, the board of directors of Karon decided to undertake a restructuring programme which would commence in June 2025. A provision of Tk.2.50 million in respect of the restructuring costs has been included in the financial statements for the year ended 30 June 2025.

The profit of Karon for the year ended 30 June 2025 is Tk.10.00 million.

Requirement:

Explain the concepts of ‘materiality’ and ‘true and fair’ view in relation to the three cases above. 7

6. a) You are the auditor of Famine Vehicle PLC, whose main activity is to buy and sell of various types of motor vehicles. During the current year the company has suffered a significant fall in sales and abnormal increase of finance cost which has led to a net loss. The company is also experiencing cash flow problems. You have been informed by the Managing Director that the fall in sale is due to shortage of saleable goods as because of less import for having constrained import facility and abnormally increasing institutional liability due to paying abnormal port demurrage consequential effect of high increasing finance cost. During the year the directors have injected some fresh capital. The draft financial statements show a loss for the current year but the forecast indicates a report to profitability in the financial year 2025-2026, as the directors are optimistic about the injection of sufficient amount of fresh capital.

Requirements:

You are required to:

- i) Describe why an auditor gives so much importance to considering an entity’s ability to continue as a going concern. 4
 - ii) Describe the audit work you would undertake in order to ascertain whether Famine Vehicle PLC is a going concern. 4
 - iii) Explain the effect on your auditors’ report on the financial statements of Famine Vehicle PLC. if you:
 - (1) Agree with the director’s assertion; and 3
 - (2) Conclude that trading conditions will not improve. 3
- b) You are a senior audit partner at a reputable audit firm in Bangladesh. Your firm has been appointed to audit the financial statements of Alfa Manufacturing Ltd for the year ended 31 December 2024. Alfa Manufacturing Ltd is a medium-sized manufacturing company listed on the Dhaka Stock Exchange. During your preliminary review, you notice the following:
- i) The company has several subsidiaries and joint ventures.
 - ii) A few directors and key management personnel own significant shares in some of the suppliers and service providers used by the company.
 - iii) Management has submitted a schedule of related party transactions, but the details appear incomplete, and no formal approvals are documented for some transactions.
 - iv) Prior year financial statements disclosed related party transactions, including loans and asset transfers, but it is unclear whether these have continued in 2025.

Requirements:

- i) Why related party transactions are often considered a high-risk area in audit reporting? 2
- ii) Discuss the reasons as per ISA 550 why the auditor needs to identify related parties transactions during an audit. 4

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